

Course Syllabus

INSTRUCTOR	Professor Katy Milkman
CLASS MEETINGS	Tuesdays and Thursdays 1:30-2:50 PM or 3:00-4:20 PM
OFFICE HOURS	Email me, and we'll set up an appointment anytime.
OFFICE LOCATION	Jon M. Huntsman Hall 566
EMAIL	kmilkman@wharton.upenn.edu
PREREQUISITES	No advanced mathematical training is required for this course, although having taken an introductory probability/statistics course may be useful.

1. Overview

1.1 Background

Over the last 30 years, psychologists and economists have joined forces to study how people process information and actually make decisions, rather than how they would make decision if they were fully rational and selfish. This research program (dubbed behavioral economics) has provided an understanding of how people's decisions deviate from "optimal" choices as well as the consequences of such deviations. This course is devoted to understanding the nature, causes and implications of these limitations. The first two thirds of the course will focus on when individuals make decisions that deviate from the predictions of economics, and the final third of the course will focus on implications of these systematic decision biases for managers and policy makers.

1.2 Objectives

The course has two main objectives. The first is improving the ability of the student (as a future manager) to influence the behavior of others, be they consumers, employees or people outside of a business relationship altogether. This will be accomplished by building on the toolbox that standard economics provides for influencing behavior (namely, incentives and information) with the insights from the aforementioned stream of research in behavioral economics.

The second objective is to improve the quality of students' own managerial decisions, primarily by enhancing the students' intuitive empirical abilities but also by improving their understanding of project evaluation. People are poor intuitive statisticians, meaning that when they 'just think' about situations for which some data or casual observations exist, they tend to make serious inferential errors, in turn leading to systematically biased decisions. We will study some errors that are particularly important for real world managerial settings and look for easy-to-implement solutions. We will also touch upon ways to evaluate the effectiveness of new ideas in the workplace.

1.3 Instruction Format

The course is primarily lecture based, although it includes several cases and activities. Class discussion is strongly encouraged.

2. Logistics

2.1 Readings

Two books are required for class:

- (1) Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT.
- (2) Cialdini, R.B. (1984). Influence: The Psychology of Persuasion. Harper Collins Publishing: New York, NY.

Both are available for purchase at major online retailers and at the Penn book store. They are popular press books rather than textbooks.

Additional required readings are available in .pdf format from webCafé and through Study.net (readings only available through Study.net are subject to copyright restrictions).

2.2 Grading

Final grades will be determined by aggregating performance on the following:

- (1) Midterm Exam (30%)
- (2) Homework (25%)
- (3) Class Participation (10%)
- (3) Final Group Project (35%)

2.2.1 Midterm Exam (Tuesday, March 22nd)

The midterm will contain short-answer and multiple choice questions and will take about an hour and fifteen minutes to complete. Sample midterms will be posted on webCafé.

2.2.2 Homework

Five homework assignments will be due throughout the term. Assignments will involve responding to survey and short-answer questions as well as writing short essays. Homework should be an individual exercise. **Homework is always due by the start of class.**

2.2.3 Class Participation

Students should come to class prepared to actively discuss the concepts in the readings. The goal is to make comments that significantly advance the class discussion, so quality is more important than quantity (but some quantity is necessary for quality to be judged).

2.2.4 Final Project

Everyone will take part in a group project (3-4 people per group) that will involve applying an idea from the first two thirds of this course to a managerial problem. The group will develop a proposed behavioral intervention to solve a managerial problem at a particular organization and will develop an argument for why their proposal should be implemented by the organization in question. We will talk more about the project mid-way through the course, but the fundamental idea is to apply one (or more) of the topics from this course. For example, a managerial problem of interest might be high rates of worker absenteeism in a US manufacturing facility. A behavioral intervention to address the problem might involve mailings to workers emphasizing low absenteeism rates among their peers. Your group would put together a compelling proposal designed to convince management at the manufacturing company that they should implement your intervention and detailing both how to deploy it and how to measure its effectiveness.

- **OUTLINE (Due March 31st):** Each group must submit a 1-page, single-spaced summary of the managerial problem they plan to tackle, the behavioral intervention they suggest using to tackle it, and their basic plan for testing the intervention's effectiveness. I will provide feedback on these project outlines. Prior to submitting this assignment each group should plan on meeting with me to talk through several ideas and choose the best one to work on.
- **PRESENTATIONS (April 19th & 22st):** In the last two days of class, each group will have approximately 10 minutes to present their project to the class.
- **PAPERS (Due April 26th):** Each group must submit a 10 page, double spaced paper providing a description of the managerial setting in question and the problem to be addressed, a description of the proposed intervention, a brief review of past research that gave rise to the proposed intervention, and a description of the methods that are proposed for evaluating the effectiveness of the intervention. The paper should be written with the aim of convincing the organization in question that they should implement the proposed idea.

2.3 Class Policies

Laptops and Cell Phones: Laptops and cell phones are not permitted in class.

Absences: Absences will hurt your class participation grade because when you are gone, the class can't benefit from your comments and insights on the material. If you are absent, you should arrange beforehand with a classmate to take notes for you and pick up any assignments or handouts.

Late Assignments: Late assignments will not be accepted.

Email Correspondence: I am often, but not always, on email. Therefore, to make sure that you get any information you need well before deadlines, please email me at least *24 hours* before you need an answer, want to set up a meeting, etc.

3. Course Outline

#	CLASS	TOPIC	ASSIGNMENT/ READINGS DUE
1	January 13 th	Introduction	
2	January 18 th	Normative Models of Behavior and Standard Incentives	Reading: Becker (1976); Levitt & Dubner (2005) Due: Homework #1
3	January 20 th	Heuristics and Biases	Readings: Gladwell (2003); Gawande (1999)
4	January 25 th	Prospect Theory	Reading: Thaler & Sunstein (2008)
5	January 27 th	Preferences for Fairness	Reading: Brafman and Brafman (2008)
6	February 1 st	Fairness and Cooperation	Reading: Angier (2002) Due: Homework #2
7	February 3 rd	Intertemporal Choice and <i>Want/Should</i> Conflict	Reading: Cassidy (2006)
8	February 8 th	Commitment Devices and Mental Accounting	Reading: Lieber (2010)
9	February 10 th	Selling Commitment Devices (<i>Guest Lecture: Jordan Goldberg, CEO StickK</i>)	Prepare: Visit and familiarize yourself with www.stickk.com Due: Homework #3
10	February 15 th	Cognitive Dissonance, Confirmation Bias and Escalation of Commitment	Reading: Tavris and Aronson (2007)
11	February 17 rd	The Challenger Launch Decision	Prepare: Challenger Case
12	February 22 nd	Bounded Awareness, Overconfidence, and Bounded Ethicality	Reading: Gladwell (2009) Due: Homework #4
13	February 24 th	Social Norms and Conformity	Reading: Salganick, Dodds and Watts (2006); Stein (2007)
14	March 1 st	Emotions and Affective Forecasting	Reading: Gertner (2003)
15	March 3 rd	Evaluating Behavioral Interventions (<i>Final Project will be Introduced</i>)	Prepare: Green Bank of the Philippines Case
16	March 15 th	Behavioral Finance at JP Morgan	Prepare: Behavioral Finance Case
17	March 17 th	Midterm Review	
18	March 22 nd	Midterm Exam	
19	March 24 th	No Class	Reading: <i>Begin reading for March 29th</i>
20	March 29 th	Libertarian Paternalism and Choice Architecture	Reading: Thaler & Sunstein (2008)
21	March 31 st	Influence I (<i>Guest Lecture: Speaker to be Announced</i>)	Reading: <i>Begin reading for April 5th</i> Due: Final Project Outline
22	April 5 th	Influence II (<i>Class Activity: Dress Comfortably</i>)	Reading: Cialdini (1984)
23	April 7 th	Applying Behavioral Economics I (<i>Guest Lecture: Dr. Prashant Srivastava, CEO Evive Health</i>)	Prepare: Visit and familiarize yourself with www.evivehealth.com
24	April 12 th	Applying Behavioral Economics II (<i>Guest Lecture: Dr. Todd Rogers, CEO Analyst Institute</i>)	Reading: Issenberg (2010) Prepare: Visit and familiarize yourself with www.analystinstitute.org
25	April 14 th	Office Hours for Discussing Final Projects (<i>During Normal Class Time in JMHH 566</i>)	Due: Homework #5
26	April 19 th	Final Project Presentations	
27	April 21 st	Final Project Presentations	
28	April 26 th	Conclusion	Due: Final Project Paper

4. Reading Assignments

Note: This schedule is subject to change based upon actual progress in class. New versions of the schedule, if any, will be posted on webCafé.

CLASS 1: INTRODUCTION

January 13, 2011

No reading assigned.

CLASS 2: NORMATIVE MODELS OF BEHAVIOR AND STANDARD INCENTIVES

January 18, 2011

Becker, G. (1976). The Economic Approach to Human Behavior. Chicago: University of Chicago Press. *Introduction*.

Levitt, S.D. & Dubner, S.J.(2005). Freakonomics: A Rogue Economist Explores the Hidden Side of Everything. Harper Perrenial: New York. *Introduction*.

CLASS 3: HEURISTICS AND BIASES

January 20, 2011

Gladwell, M. (2003). "Connecting the Dots: The Paradoxes of Intelligence Reform," *The New Yorker*, March 10, 2003.

Gawande, A. (1999). "The Cancer Cluster Myth." *The New Yorker*, February 8, 1999.

CLASS 4: PROSPECT THEORY

January 25, 2011

Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT. *Chapter 11: How to Increase Organ Donations*.

CLASS 5: PREFERENCES FOR FAIRNESS

January 27, 2011

Brafman, O. & Brafman, R. (2008). Sway: The Irresistible Pull of Irrational Behavior. Broadway Books: New York, NY. *Chapter 6: In France, the Sun Revolves around the Earth*.

CLASS 6: FAIRNESS AND COOPERATION

February 1, 2011

Angier, N. (2002). "The Urge to Punish Cheats: It Isn't Merely Vengeance". *The New York Times*, January 22, 2002.

CLASS 7: INTERTEMPORAL CHOICE AND WANT/SHOULD CONFLICT*February 3, 2011*

Cassidy, J. (2006). "Mind Games: What Neuroeconomics Tells Us about Money and the Brain." *The New Yorker*, September 18, 2006.

CLASS 8: COMMITMENT DEVICES AND MENTAL ACCOUNTING*February 8, 2011*

Leiber, R. (2010). "Your Card Has Been Declined, Just as You Wanted" *New York Times*, August 13, 2010.

CLASS 9: SELLING COMMITMENT DEVICES*February 10, 2011*

Visit and familiarize yourself with www.stickk.com

CLASS 10: COGNITIVE DISSONANCE, CONFIRMATION BIAS AND ESCALATION OF COMMITMENT*February 15, 2011*

Tavris, C. and Aronson, E. (2007). Mistakes Were Made (but not by me): Why We Justify Foolish Beliefs, Bad Decisions, and Hurtful Acts. Harcourt Books: USA. *Introduction & Chapter 1*.

CLASS 11: THE CHALLENGER LAUNCH DECISION*February 17, 2011*

Edmondson, A.C. & Feldman, L.R. (2002). Group Process in the Challenger Launch Decision (A). Harvard Business School Press: Cambridge, MA.

CLASS 12: BOUNDED AWARENESS, OVERCONFIDENCE, AND BOUNDED ETHICALITY*February 22, 2011*

Gladwell, M. (2009). "Cocksure: Banks, Battles, and the Psychology of Overconfidence." *The New Yorker*. July 27, 2009.

CLASS 13: SOCIAL NORMS AND CONFORMITY*February 24, 2011*

Salganik, M.J., Dodds, P.S. and Watts, D.J. (2006) "Unpredictability in an Artificial Cultural Market" *Science* 311.

Stein, A.J. (2007). "Windshield Pitting Incidents in Washington Reach Fever Pitch on April 15, 1954." *Historylink.org Essay 5136*.

CLASS 14: EMOTIONS AND AFFECTIVE FORECASTING*March 1, 2011*

Gertner, J. (2003). "The Futile Pursuit of Happiness," *The New York Times*, September 7, 2003.

CLASS 15: EVALUATING BEHAVIORAL INTERVENTIONS*March 3, 2011*

Ashraf, Nava, Dean Karlan, and Wesley Yin. "Evaluating Microsavings Programs: Green Bank of the Philippines (A)." Harvard Business School Publishing: Cambridge, MA. Case #909-062.

CLASS 16: BEHAVIORAL FINANCE AT JP MORGAN*March 15, 2011*

Baker, M.P. & Sesia, A. (2007). "Behavioral Finance at JP Morgan." Harvard Business School Publishing: Cambridge, MA.

CLASS 17: MIDTERM REVIEW*March 17, 2011*

No reading assigned.

CLASS 18: MIDTERM EXAM*March 22, 2011*

No reading assigned.

CLASS 19: NO CLASS*March 24, 2011*

Begin reading for March 29th.

CLASS 20: LIBERTARIAN PATERNALISM AND CHOICE ARCHITECTURE*March 29, 2011*

Thaler, R.H. & Sunstein, C.R. (2008). *Nudge: Improving Decisions about Health, Wealth, and Happiness*. Yale University Press: New Haven, CT. *Introduction, Chapter 4: When Do We Need a Nudge?, Chapter 5: Choice Architecture, & Chapter 17: Objections.*

CLASS 21: INFLUENCE I*March 31, 2011*

Begin reading for April 5th.

CLASS 22: INFLUENCE II*April 5, 2011*

Cialdini, R. (1984). Influence: The Psychology of Persuasion. Harper Collins Publishing: New York, NY.

CLASS 23: APPLYING BEHAVIORAL ECONOMICS I*April 7, 2011*

Visit and familiarize yourself with www.evivehealth.com

CLASS 24: APPLYING BEHAVIORAL ECONOMICS II*April 12, 2011*

Issenberg, S. (2010). "Nudge the Vote." *The New York Times*, October 29, 2010.

Visit and familiarize yourself with www.analystinstitute.org

CLASS 25: OFFICE HOURS FOR DISCUSSING FINAL PROJECTS*April 14, 2011*

No reading assigned.

CLASS 26: FINAL PROJECT PRESENTATIONS*April 19, 2011*

No reading assigned.

CLASS 27: FINAL PROJECT PRESENTATIONS*April 21, 2011*

No reading assigned.

CLASS 28: CONCLUSION*April 26, 2011*

No reading assigned.

5. Additional Reading on Selected Course Topics

Note that much of the material from these readings will be covered during class. These readings may be helpful if you would like a refresher on a given lecture topic. However, they are not required and are likely to be most useful after attending a lecture on a given topic rather than before.

HEURISTICS AND BIASES

Bazerman, M.H. (2006). Judgement in Managerial Decision Making. John Wiley & Sons: USA. Chapter 2: *Common Biases (Pages 13-33, skip Q12)*.

PROSPECT THEORY

Thaler, R.H. (1992). The Winner's Curse: Paradoxes and Anomalies of Economic Life. Princeton University Press: Princeton, NJ. Chapter 6: *The Endowment Effect, Loss Aversion, and Status Quo Bias*.

Camerer, Colin F. (2000). "Prospect Theory in the Wild: Evidence from the Field." In D. Kahneman and A. Tversky (eds.), Choices, Values, and Frames. Cambridge University Press: Cambridge, UK.

PREFERENCES FOR FAIRNESS

Kahneman, D., Knetsch J.L., and Thaler R. (1986) "Fairness as a Constraint on Profit Seeking: Entitlements in the Market," *The American Economic Review*, 76(4), p.728-741.

FAIRNESS AND COOPERATION

Thaler, R.H. (1992). The Winner's Curse: Paradoxes and Anomalies of Economic Life. Princeton University Press: Princeton, NJ. Chapter 2: *Cooperation*.

INTERTEMPORAL CHOICE AND WANT/SHOULD CONFLICT

Thaler, R.H. (1992). The Winner's Curse: Paradoxes and Anomalies of Economic Life. Princeton University Press: Princeton, NJ. Chapter 8: *Intertemporal Choice*.

Milkman, K.L., Rogers, T., & Bazerman, M.H. (2008). "Harnessing Our Inner Angels and Demons: What We Have Learned about *Want/Should* Conflicts and How that Knowledge Can Help Us Reduce Short-Sighted Decision Making," *Perspectives on Psychological Science*, Vol. 3, 324-338.

COMMITMENT DEVICES AND MENTAL ACCOUNTING

Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT. Chapter 2: *Resisting Temptation*

BOUNDED AWARENESS, OVERCONFIDENCE, AND BOUNDED ETHICALITY

Russo, E.J. & Shoemaker, P.J.H. (2002). Winning Decisions: Getting it Right the First Time. Doubleday: New York. *Pages 74-89*.

Bazerman, M., & Chugh, D. (2006). Decisions without Blinders, *Harvard Business Review*. January 2006.

Banaji, M., Bazerman, M., & Chugh, D. (2003). How (Un)Ethical Are You? *Harvard Business Review*, 81(12), 56-64.

SOCIAL NORMS AND CONFORMITY

Thaler, R.H. & Sunstein, C.R. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness. Yale University Press: New Haven, CT. *Chapter 3: Following the Herd*.

EMOTIONS AND AFFECTIVE FORECASTING

Schwartz, B. (2004). The Paradox of Choice: Why More is Less. Harper Collins: New York, NY. *Chapter 7: "If Only...": The Problem of Regret*.

EVALUATING BEHAVIORAL INTERVENTIONS

Ayres, I. (2007). Super Crunchers. Bantam Books: New York, NY. *Chapter 2: Creating Your Own Data with the Flip of a Coin*.

CONCLUSION

Milkman, K.L., Chugh, D., & Bazerman, M. (2008). "How Can Decision Making Be Improved?" *Perspectives on Psychological Science*, 4(4): 379-383.